

North Dakota REV-E-NEWS



Pam Sharp, Director

November 2008

OFFICE OF MANAGEMENT AND BUDGET

600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400

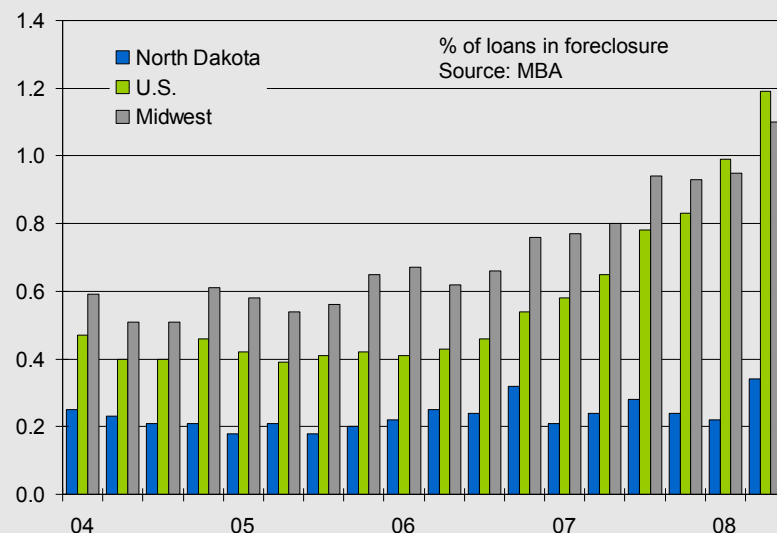
MESSAGE FROM THE DIRECTOR

Director's Notes

A recently completed analysis of the North Dakota economy by the state's economic forecasting consultant, *Moody's Economy.com*, provides a positive long-term outlook, but also shows concern for the immediate future. Moody's refers to employment growth in North Dakota in recent years as "spectacular," but expresses concerns that the national recession will weaken the North Dakota job market in the near future. However, Moody's acknowledges that "the state's stable government and flexible labor force will limit the increase in the unemployment rate," and expects any labor market deterioration in North Dakota to "be far less than the Midwest in general."

In addition to the national weakening of the labor market, other areas of concern for the North Dakota economy are declining commodity prices, declining oil prices, and a potential weakening in consumer confidence. However, credit quality is still good in North Dakota, due to a history conservative lending practices and the current health of the state's labor market. The foreclosure rate in North Dakota has remained flat as rates in the Midwest and the nation have moved sharply higher. Moody's reports that North Dakota enjoys the second-lowest foreclosure rate in the U.S.

Foreclosure Rate Is Among Lowest in the Nation



OIL ACTIVITY



The revised forecast for the 2007-09 biennium is based on fiscal year 2009 oil production averaging approximately 160,000 barrels per day and price declining from \$110 per barrel at the start of the fiscal year to \$95 per barrel by June 2009. Currently, the price of North Dakota crude has fallen to around \$40 per barrel. Production continues to set new records and increased in September to 188,200 barrels per day. The current rig count is 91 rigs, 46 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Sept 2008	Aug 2008	July 2008
ND sweet crude price per barrel	\$94.21	\$126.54	\$125.10
Production (barrels/day)	188,200	177,700	172,900
Drilling permits	103	76	83
Producing wells	4,193	4,154	4,102
Rig count	87	82	76

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM October 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	42,491,000	57,019,989	14,528,989	34.2%	600,635,000	698,649,429	98,014,429	16.3%
Motor Vehicle Excise Tax	5,102,000	6,166,039	1,064,039	20.9%	76,855,000	91,458,907	14,603,907	19.0%
Individual Income Tax	22,193,000	54,329,817	32,136,817	144.8%	321,511,000	416,353,609	94,842,609	29.5%
Corporate Income Tax	7,427,000	6,216,404	(1,210,596)	-16.3%	85,910,000	149,108,780	63,198,780	73.6%
Insurance Premium Tax	68,908	110,353	41,445	60.1%	32,095,750	38,297,086	6,201,336	19.3%
Financial Institutions Tax		84,944	84,944	100.0%	4,700,000	6,632,501	1,932,501	41.1%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	952,090	967,390	15,300	1.6%	13,183,541	13,275,599	92,058	0.7%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	2,050,000	1,997,723	(52,277)	-2.6%	32,345,000	30,783,195	(1,561,805)	-4.8%
Wholesale Liquor Tax	553,000	658,722	105,722	19.1%	8,541,000	9,437,073	896,073	10.5%
Coal Conversion Tax	2,028,000	2,128,212	100,212	4.9%	32,080,000	32,405,841	325,841	1.0%
Mineral Leasing Fees	1,000,000	2,393,062	1,393,062	139.3%	9,150,000	17,324,605	8,174,605	89.3%
Departmental Collections	1,616,000	1,687,728	71,728	4.4%	35,730,000	39,593,340	3,863,340	10.8%
Interest Income	1,375,000	1,587,775	212,775	15.5%	22,920,000	28,815,131	5,895,131	25.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers	159,257	178,639	19,382	12.2%	955,542	1,024,855	69,313	7.3%
Total Revenues and Transfers	87,015,255	135,526,798	48,511,543	55.8%	1,468,189,333	1,764,459,951	296,270,618	20.2%

* Oil and gas production and extraction tax collections totaled \$35.0 million in October. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through October, oil tax collections totaling \$343.6 have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2007-09 BIENNIUM October 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	October 2006	October 2008	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	47,770,167	57,019,989	9,249,822	19.4%	551,366,511	698,649,429	147,282,918	26.7%
Motor Vehicle Excise Tax	4,994,155	6,166,039	1,171,885	23.5%	83,416,380	91,458,907	8,042,527	9.6%
Individual Income Tax	37,394,866	54,329,817	16,934,951	45.3%	373,862,893	416,353,609	42,490,716	11.4%
Corporate Income Tax	385,232	6,216,404	5,831,172	1513.7%	130,093,989	149,108,780	19,014,790	14.6%
Insurance Premium Tax	66,886	110,353	43,467	65.0%	30,440,818	38,297,086	7,856,268	25.8%
Financial Institutions Tax	3,818	84,944	81,126	2124.8%	4,284,642	6,632,501	2,347,859	54.8%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	759,241	967,390	208,149	27.4%	11,950,253	13,275,599	1,325,346	11.1%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	1,978,918	1,997,723	18,805	1.0%	30,179,580	30,783,195	603,616	2.0%
Wholesale Liquor Tax	503,514	658,722	155,209	30.8%	8,591,733	9,437,073	845,340	9.8%
Coal Conversion Tax	2,078,047	2,128,212	50,165	2.4%	33,244,005	32,405,841	(838,164)	-2.5%
Mineral Leasing Fees	1,426,503	2,393,062	966,560	67.8%	9,912,987	17,324,605	7,411,619	74.8%
Departmental Collections	1,623,760	1,687,728	63,969	3.9%	34,121,648	39,593,340	5,471,693	16.0%
Interest Income	1,484,440	1,587,775	103,335	7.0%	17,631,023	28,815,131	11,184,108	63.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					30,000,000	115,000,000	85,000,000	283.3%
Other Transfers	276,104	178,639	(97,465)	-35.3%	9,719,839	1,024,855	(8,694,984)	-89.5%
Total Revenues and Transfers	100,745,650	135,526,798	34,781,148	34.5%	1,436,116,301	1,764,459,951	328,343,650	22.9%

* Oil and gas production and extraction tax collections totaled \$35.0 million in October. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through October, oil tax collections totaling \$343.6 have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

October 2008 revenues were \$135.5 million, \$48.5 million more than projected in the original legislative forecast and \$34.0 million more than estimated in the revised forecast. Biennium to date collections exceed the original forecast by 296.3 million, or 20.2 percent. Since July, when the revised 2007-09 forecast was completed, actual collections have exceeded the revised forecast by \$48.5 million, or 2.8 percent. Notable variances for the month are as follows:

- **Sales tax** collections for the month of October continue to show strong growth. Contrary to much of the rest of the nation, North Dakotans are enjoying an economic expansion and as a result, consumer confidence and spending continue to grow. October sales tax collections exceeded the original forecast by \$14.5 million, or 34.2 percent. Biennium to date sales tax collections exceed the legislative forecast by 16.3 percent and the previous biennium by 26.7 percent.
- **Motor vehicle excise tax** collections continue to exceed the forecast. Collections exceed the original forecast by \$1.1 million for the month and by \$14.6 million for the biennium to date. Following steady declines during the 2005-07 biennium, collections are currently 9.6 percent higher than at the same time last biennium.
- **Individual income tax** collections exceed the original forecast by \$32.1 million for the month. A significant portion of this variance appears to be related to anticipated transfers to the refund reserve account. Original projections anticipated a transfer of

\$25.0 million during October 2008. However, collections in previous months have resulted in sufficient transfers to the refund reserve account and no transfer was made during October. Biennium to date collections exceed the original forecast by \$94.8 million, or 29.5 percent.

- **Corporate income tax** collections fell short of projections by \$1.2 million for the month, but have exceeded the original forecast by \$63.2 million so far this biennium.
- **Oil and gas tax** collections for the month were \$35.0 million, \$26.5 million more than anticipated in the original forecast and \$300,000 more than anticipated in the revised forecast. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$35.0 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude has fallen to approximately \$40 per barrel and September production averaged 188,200 barrels per day, setting a new record for North Dakota.
- **Mineral leasing fees** exceeded the forecast by \$1.4 million in October. These revenues are received by the state as a result of mineral extraction on federal lands within the boundaries of the state. These revenues have totaled \$17.3 million for the biennium, \$8.2 million more than expected. Revenues from this source are shared equally with the counties within which the minerals are produced.

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